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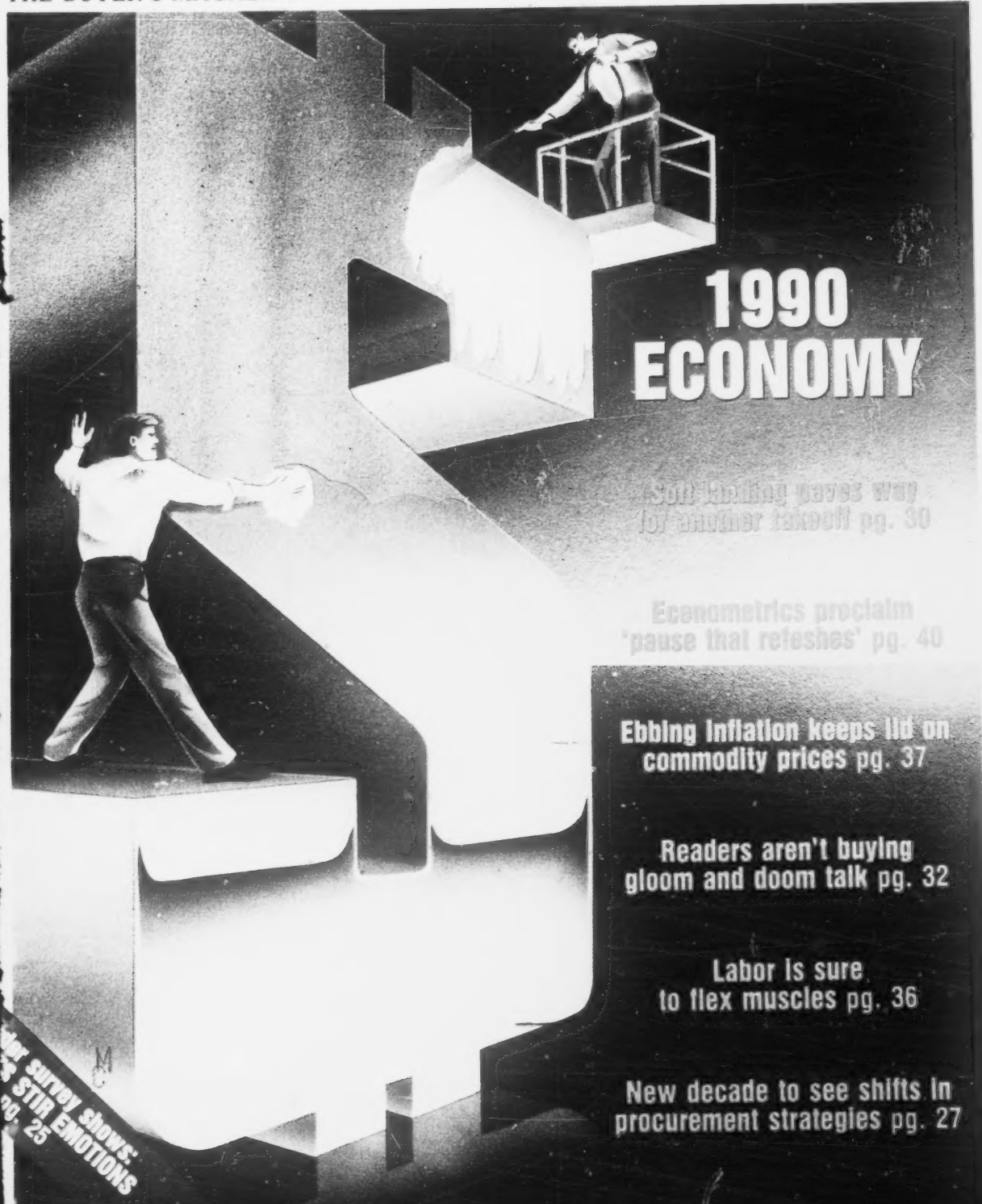
• Transportation donnybrook brewing • Managing your suppliers
• Dr. Ken answers your questions • A look at purchasing in the 90s

PurchasingWorld

THE BUYER'S MAGAZINE

JANUARY 1990



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PurchasingWorld

PW POINTERS

Plating can add to fastener failure

Plating applied to fasteners to minimize the danger of corrosion can contribute to failure rates, warns the Unbrako Div., SPS Technologies, Newtown, PA. The failure mode is hydrogen embrittlement, caused by hydrogen that is entrapped during the plating process. Baking after plating is the most effective way to minimize the danger. It should take place at 375 degrees F, starting within one hour of plating and continuing for 23 hours, the manufacturer of high strength precision fasteners advises. Existing MIL specifications, which call for a bake cycle of three hours within four hours of plating, are expected to be revised to include the tighter requirements, the firm claims.

National directory lists fax numbers

When Fax numbers cannot be quickly located, the ease and speed of the fax machine is wasted. A new publication, "The National Fax Directory 1990" solves that problem by listing more than 80,000 numbers of major companies and organizations. Each entry lists the phone number, address, and zip code so that the one directory can be used for any contact information need. The numbers are listed alphabetically, by subject, and by region of the country. *Gale Research Inc., 835 Penobscot Building, Detroit, MI 84226.*

Smart purchasing pays big dividends

United Technologies Corp.'s consolidated purchasing program is paying big dividends. Under it, various UTC divisions are pooling their purchasing to achieve maximum buying power. The company's jet engine manufacturer, Pratt & Whitney, combined its machine tool requirements to buy from two firms—Giddings & Lewis and DeVlieg-Sundstrand—to earn quantity discounts totaling $1.2 million. "By entering into long-term agreements with certain suppliers, UTC is able to reduce costs and obtain higher quality products," says George Sanford Jr., vice president of corporate purchasing. The Pratt & Whitney purchases were made specifically through UTC's Capital Equipment and Rolling Stock Council.

System keeps track of & logs packages

Shippers can start saving time and eliminate logging of packages by hand with a new Parcel System 4 UPS Register developed by Postalia Inc., Downers Grove, IL. It rids the shipper of the time-consuming and error-prone process of manually making entries into a standard register book. Special costs such as COD and declared value can be sheeted on each package. Other advantages: when running to verify date or test tapes, the unit will not distort totals; there is no need to put money into the register as it simply records charges for billing later. *Postalia Inc., 1423 Centre Circle Dr., Downers Grove, IL 60515.*

Pre-engineered building can solve space crunch

Pre-engineered small span metal buildings may be the answer to your space and storage problems and can meet a variety of industrial applications, reminds Louis Gilmore, president of Miller Building Systems, Springhouse, PA. Used to store excess inventory, vehicles, equipment, or raw materials, such buildings can even be specially designed to store hazardous materials or can be used as electrical substations, generator buildings, pipeline stations or even small office buildings or computer rooms. *Miller Building Systems, P.O. Box 482, Springhouse, PA 19477.*

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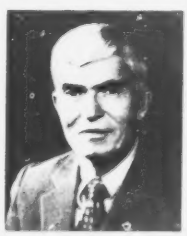
Indicators agree on near-term trends

Purchasing managers, vendors, business analysts, and the big econometric models are all pretty much of the same mind these days when it comes to projecting near-term price trends. In a nutshell, all see smaller, more scattered increases and, equally important, a lot of bargaining leverage for most industrial buyers.



The specifics, most of which are contained in the special 1990 forecast section in this issue, can be summarized as follows:

• **Purchasing:** the prestigious National Association of Purchasing Management (NAPM) Business Survey Committee anticipates that procurement costs of its more than 250 responding firms will advance at a less-than-2% rate in 1990. That compares to the 3.7% boost projected a year ago for 1989. *PurchasingWorld* readers, while not quite as optimistic, expect some deceleration, too. Our latest survey calls for an average 3.7% increase—down from the 4%-plus estimate made a year ago (for 1989).

• **Vendors:** a new McGraw Hill/DRI survey of leading producers is now calling for only a XX% increase in the prices of the products they sell this year. As recently as this past May, this same group's forecast (covering 1989) called for a considerably higher 4.6% advance. This downgrading is also supported by a recent Dun & Bradstreet survey of plant executives. This study finds only 50% of those queried now expecting increases in their product prices over the subsequent 12-month period—down from the 59% reading a few quarters earlier when a similar question was posed.

• **Economists:** Dr. Roger Williams, *PW*'s own economic consultant, sees industrial wholesale tags (a close approximation to the typical industrial purchasing mix) rising 3.5% this year—significantly under 1989, when this same index jumped 5.2%. The Wharton Econometric Forecasting Associates group's Dr. Nariman Behravesh—looking at the more comprehensive GNP price deflator—expects averages to be up 4-4.5%.

• **Mathematical models:** a compendium of three econometric forecasts puts this same GNP deflator advance at 4%—a fraction under actual 1989 levels. And when it comes to another index, finished producer goods, the improvement is a lot more impressive—with the advance here dropping from 5% in 1989 to an estimated 2.9% in 1990.

Why all this optimism about keeping inflation under wraps? Read our detailed forecast of 1990 economic conditions, and a combination of factors is suggested. For one, demand/pull forces which sparked the relatively big hikes of 1988 and early 1989 have pretty much dissipated. Sure, demand will continue to rise—but at a much more modest rate. Couple this with still-rising capacity, and market pressures should continue to ease.

Cost/push inflation is also likely to remain under control. And while wage rates could move up an additional one half to one percentage point—there should still be a modest productivity offset—thus keeping unit labor cost increases in the relatively tolerable 2-4% range. This can't be underestimated as a price-rise deterrent, since roughly two-thirds of every sales dollar in the country can be traced back to some kind of labor outlay.

Other price-restraining factors expected to be operative over 1990 would have to include 1) falling interest rates—a trend expected to hold down inventory carrying costs, 2) steady energy quotes as contrasted to last year's runup, 3) low food inflation—put at 3-5% this year *versus* near 6% in 1989, and last but not least, 4) continuing import competition, as the dollar holds onto most of its recent gains.

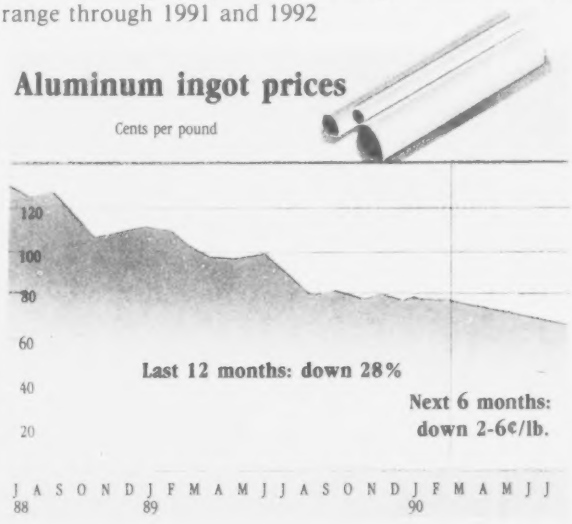
In aluminum, buyers call signals

CURRENT SITUATION: The light metal has fallen from its once-lofty perch. Volatile ingot quotes, for example, are down close to 30% vis-a-vis a year ago. And the easing has been spreading—with declines now being reported in such other areas as common alloys and aluminum scrap. **All of this softness reflects a basic change in the metal's fundamentals**

DEMAND: Domestic shipments in 1989 should hit about 17.5 billion pounds—not that much above 1988's estimated 17.2-billion-pound levels. **As for the new year—look for another small gain—to about 17.7 billion pounds.** The global picture also suggests some slowdown. Behind this respite: slower construction and auto chew-ups. But over the longer pull, 3-4% annual gains still seem attainable. One reason: **more penetration into the auto market.**

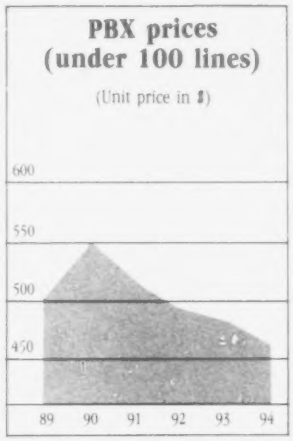
SUPPLY: Improved availability is perhaps best evidenced by rising global inventories, estimated currently to be the equivalent of a 1.7 month supply (up from the 1.4 month level of a year earlier). An additional advance to roughly 2.1 months is likely for 1990. **On the other hand, it would be unrealistic to anticipate a major glut.** Reason: mills are still operating in excess of 96% of their potential and not all that much new capacity is coming on-stream over the next few years, as financial problems delay Brazilian and Venesuelan expansions.

PRICE OUTLOOK: Figure on a continuing ingot downdrift. But declines will be uneven (interrupted by sporadic rallies) and should be less precipitous than the slide of the past year. This, in turn, should result in a broadening array of lower mill product tags. **The longer-term outlook also suggests basically soft markets**—with ingot expected to average in the 70-90¢/lb. range through 1991 and 1992



Switchboard prices down

The price downtrend on private branch exchanges is likely to be reversed on systems with under 100 lines. So predicts the Eastern Management Group, which sees unit quotes jumping $50 on these models in 1990 (to $550). But the decline



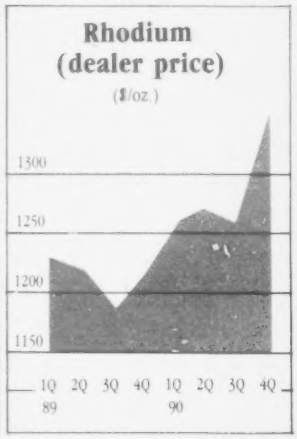
should resume after the current year—with prices in 1991-92-93-94 falling to $522, $496, $480, and $466 respectively.

Express mail costs go up

The over-$8-billion U.S. air express package and letter courier industry is poised for 17% annual increases in volume through 1993. But despite this spurt, prices should rise only 0.4% yearly according to the Freedonia Group—with the research outfit attributing these small rises to continuing competitive pressures. Also the industry will increasingly emphasize packages over letters because of 1) the greater competition in the latter area, and 2) inroads being made by fax machines. Another prediction: international business should rack up the biggest increases (about 30% a year).

Rhodium limit is the sky

The sky seems to be the limit here as strong buying and shortages push prices up well above $1,700/oz. range. That's more than 30% above levels prevailing just one year ago. Behind the surge: the Soviet's absence as an active supplier to the spot market. Moreover, the bull market is likely to persist—especially as 1991 approaches, a time



when Western European car makers will be switching to catalytic converters containing the precious metal.

Many factors drop zinc

Another 4¢/lb. decline has dropped the plating and alloying metal close to 25% under last year's 95¢/lb. peak. Several factors are contributing to the slide, including 1) resolution of

production and labor problems around the globe, 2) a slowdown in consumption, 3) a gradual buildup of surplus metal, and 4) weak London Metal Exchange quotes. Nor is any near-term turnaround likely, as auto production eases and new mines and smelters come onstream.

Steel hurt by autos

Demand continues to disappoint, hurt in large part by plans for reduced auto production. In any case, first half 1990 shipments are likely to drop under the 40-million-ton level (*versus* 43.8 million a year earlier), with only little improvement anticipated after mid-year. As such, prices look to remain fairly soft—despite new mill attempts to boost sheet prices 3-4%. Upshot: the composite (spot plus contract) quote should remain around $520/ton through the year—about 3.5% under last spring's high.

Fax cards drop, too

These PC attachments, alternatives to stand-alone machines, are now selling for as little as $249 (though some sophisticated models still command upwards of $1,000). A plus: you can send faxes directly from your PC. One disadvantage: the cards are harder to use than stand-alones. In any event, average prices are expected to continue coming down. According to estimates by Dataquest, the typical card will drop from $579 last year to $391 over the course of 1990—and further to $335 by 1992.

Discounts for stainless

Large volume discounts to distributors have been upped between one and five percentage points (to near 25%). And some industry observers say the shading could be even more substantial than that (based on the competitive prices being offered to final users). Buyers supplied directly by mills are also reaping benefits, with reports of selective discount increases of two and three percentage points—especially on 300-series products.

Soda ash pushes up

Producers have been successful in pushing up off-schedule prices about $10/ton over the past year (to an average $76/ton). Long-term contract buyers are not escaping unscathed, either—and are being asked to pay $7-10/ton more—enough to push quotes on 2-year contracts up into the $65-67/ton range. All these boosts, however, leave prices far under the official $93/ton list—a price that's likely to remain unchanged for quite some time.

Inventories sway copper

Rising inventories are taking their toll on copper prices, with quotes off

Innovation spreads wings

Electronic data interchange (EDI) is beginning to take off, though the potential for this innovative approach—which allows firms to transmit computerized messages instead of paper documents—has hardly been tapped.

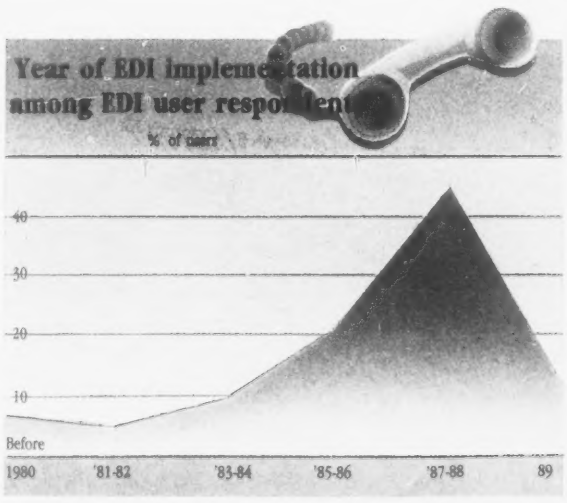
These are the key points of a new Frost & Sullivan report titled "EDI User Implementation Strategies." On the underutilization score, the New York-based consulting firm notes 1) many industries have yet to try it, 2) small businesses are conspicuous by their absence, 3) volumes within a firm are low, and 4) few departments within a firm use it.

On the other hand, four factors should be making EDI increasingly attractive over the next year or two. These include:

- a growing choice of products. In the early 1980s most companies had to write their own EDI software—thereby running up high implementation costs.
- products and services have become increasingly functional, thereby minimizing user customization and cutting costs.
- software product prices have dropped sharply because of technological advances and increasing competition.
- industry associations and user groups are now offering increasing support in pointing up the most appropriate EDI systems.

These pluses may already be having some effect. Thus, 46% of user respondents surveyed by Frost & Sullivan implemented EDI between 1987 and 1988 (see chart). Equally significant, some 48% of non-users expect to adopt sometime during the next two years.

The study also recommends that new users explore the use of third party value-added networking (VAN) service providers. The consulting firm feels that these service outfits can be particularly useful when it comes to solving many of the logistical and technical problems when EDI is to be applied to multiple trading partners.



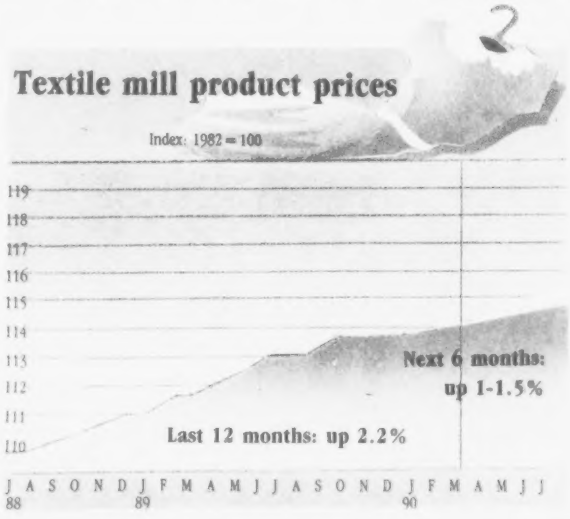
Textiles mixed, mills mark time

CURRENT SITUATION: The market is mixed—with some areas doing tolerably well, others rather poorly. Factors pressing down in recent months would have to include 1) retailer financial problems, 2) new increases in imports, and 3) basic uncertainty about where the economy is headed. Sign of the times: mill output, while above a year ago, has been marking time of late. **And prices have tended to flatten—with mill averages up less than 1% over the past six months** and some print cloths actually turning somewhat softer.

DEMAND: Mill production looks to be up only 1-2% in 1990, hurt in part by imports which, according to some estimates, now account for as much as 55% of the entire market. In any case, gains will be well under the near-6% increase of the past 12 months—most of which was recorded in the early part of the year. **This, in turn, should mean reduced fiber demand gains.** Mill consumption of cotton, for example, will rise only fractionally, from 7.6 million bales to 7.7 million. And while manmade constructions may average a bit above 1989 averages, all of the advance should take place in the last two quarters.

SUPPLY: Few problems are anticipated—despite the fact that mill operating rates remain in the relatively high 90%-plus range. One reason: capacity continues to increase at about a 3.5-4% rate—actually above the 1-2% gain projected for demand. There are, of course, some exceptions to this still basically easy situation. On the gray goods front, some 6,000 narrow looms have been shut down and could present a problem should demand take a sudden spurt. And in the fiber area, polyester staple should remain fairly snug. On the other hand, wool supplies have eased as global stocks begin to mount.

PRICE OUTLOOK: Any near-term increases will be on the modest side. To be sure, mill attempts to pass along last year's big fabric hikes will continue. But generally speaking, these sellers will have to settle for less than they want. Also the big price runups in fibers are over—in manmades, which jumped more than 7% over the past year, and in cotton and wool, where some softness has recently been noted. Best bet then for overall mill products—only about a 1-1.5% boost over the next six months—**pretty much a continuation of the pattern of the past year.**



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more than 20¢/lb. from early-last-fall levels. Behind the slippage: resolution of most of the mine disruptions around the world. On the other hand, it would be unrealistic to expect the metal to fall through the floor, for the current excess is not great. Best bet: a continued slow downdrift—with prices over 1990 averaging 90-95¢/lb.

The office: shredders up

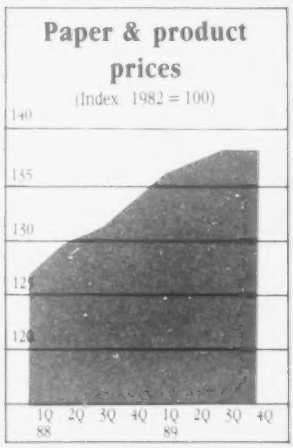
New cordless office phones are being offered by AT&T. Priced in the $485-560/set range, the new equipment can handle as many as five lines simultaneously. Another office trend worth noting: the growing use of shredders (now rising 10-12% a year). While heavy-duty types equipped with compactors sell for $9,000-20,000, some mid-range office models go in the relatively low $2,000-3,000 range.

Lead sags to new low

The heavy metal continues to sag, with a new decline dropping the going price into the upper 30s—well under the 43.5¢/lb. high of last year. Behind the softening: some tapering off in demand from battery makers, plus growing supplies (reflecting a large overseas expansion in secondary smelter production). All of this suggests the possibility of further price softness, with quotes dropping below the 35¢/lb. barrier by sometime this spring.

Paper prices flatten out

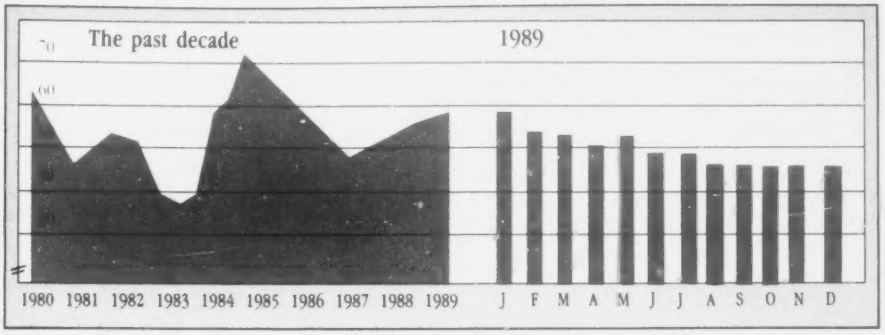
The flattening out price trend of late last year persists. All in all, newsprint is now 12% under a year ago, with such typical printing and writing grades as forms bond and uncoated groundwood both off about 6% over the same period. Bucking the trend: a new move to boost cut-to-size photo paper by $50/ton. But it's still not clear whether the market will accept this kind of hike given current order levels.



BUSINESS DATATRAK

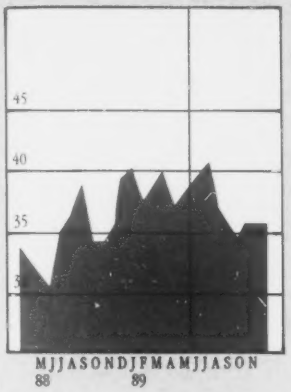
N.A.P.M. business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)



Leading indicators

Non-defense capital goods orders Billions of dollars



KEY ECONOMIC TRENDS

1990 starts softly

The new year is beginning on a relatively soft note, but as emphasized in this issue's special 1990 forecast section, the lull is likely to prove only temporary.

In any event, the current disappointing spate of new numbers coming out of Washington has to be viewed in proper perspective. Take the recent slide in non-defense capital spending. For one, there is now at least some hint of leveling off (see top chart).

More important are the indications that some kind of rally in this key series may be in the making—if not now then certainly by spring. Historically, a capacity utilization rate near the current 83% level has been sufficient to generate continuing increases in plant and equipment spending. And judging from new capital spending surveys, the same pattern looks to be shaping up for the new year.

Building activity, too, may be holding up better than anticipated. Clearly, contract awards (second chart) would seem to indicate as much. This lead indicator of future construction outlays, while zigzagging, has remained at relatively high levels in recent months.

And again there is no sign of any imminent change. Indeed, somewhat larger mortgage rates may actually give the critical housing sector a badly needed fillip. True, declines are likely in commercial and manufacturing facilities, but these will be more than offset by strength in the water use and control, transportation, utilities, and communications areas. Upshot: total dollar commitments for construction could be up as much as 5% as a whole.

Then there's employment—a crucial determinant of consumer confidence and hence consumer spending. Right now, help wanted advertising (last chart) is down. But there are plenty of signs that this reflects the current manufacturing lull rather than any long-term weakness.

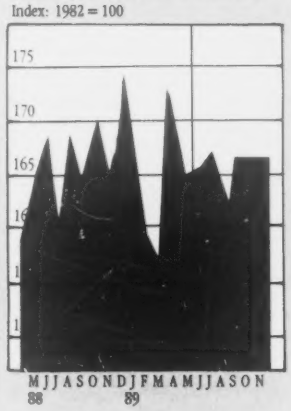
A new survey by Manpower, Inc., for example finds little more than a seasonal hiring slowdown in prospect for this first quarter. Indeed, a slight uptick in totals is possible since the 20% who see an increase in their payrolls actually tops the 12% who plan on cutbacks.

Also worth noting, the new figures are similar to those of a year ago when the comparable numbers were 22% planning for additions *versus* 11% calling for reductions.

Further confirmation that the economy will remain in uptrend comes from the latest Dun & Bradstreet survey of top business executives. True, the current mood is cautious, but survey findings show few if any inflationary or inventory excesses—something which is prompting the information-gathering firm to predict an improving economic picture by early spring.

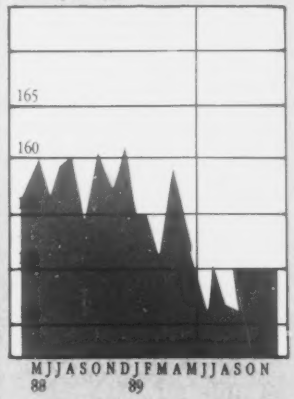
Construction awards

Index: 1982 = 100



Help wanted

Index: 1967 = 100



Still another positive sign: factory managers for the most part are maintaining their brisk purchases of industrial distributor products. Current levels here are running about 10% ahead of a year ago—other things being equal, this would seem to indicate that these people are relatively optimistic about maintaining or even upping their production schedules.

What does it all add up to? Certainly no declines. Output—now that the Boeing strike and natural disasters such as the San Francisco earthquake are behind us—could well begin to edge up again.

Our recently revised first quarter industrial production forecast tells the story. As of now we are predicting a 2.25% annual rate of advance—a significant, if modest, improvement over the sluggish 1.5% pace reported during the last three months of 1989.

Car choice affects costs

Choice of fleet cars can make a big difference in overall driving outlays.

Just how big a difference is revealed in a new study of some 15 new 1990 models by Runzheimer International. Assuming a 36-month, 60,000-mile retention cycle, the Wisconsin-based management consulting firm estimates overall fixed and operating costs can vary from as low as $5,572 to upwards of $14,000 annually (see chart for details).

At the low end of the spectrum are the Honda Accord, Ford Escort, and Chevrolet Cavalier—all in the $5,600 per year range. The highest overall costs, as might be expected, are for the big luxury models, headed by the Mercedes Benz 300 SEL which would cost an estimated $14,284 per year to own and operate.

The low overall Honda Accord cost is in large part due to its high resale value and hence low average fixed costs. The Dodge Caravan and Chevrolet Caprice also have relatively low fixed costs. Ditto the Lincoln Town Car, the Chevrolet Lumina, and the Ford Tempo.

Such relatively low fixed costs (reflecting good trade-in values) is of prime concern to fleet managers. It's for this reason, says Runzheimer, that "professional fleet managers tend to stick to the tried and true. Their philosophy is that a popular new car in the 1990 model year will be a popular used car in the 1993 or 1994 model year."

Meantime, for those buyers who prefer to concentrate on operating costs, the best buys would be the Ford Escort, the Chevrolet Cavalier and the Toyota Camry DLX (all with operating costs in the $1,500-1,550 per year range). On the other hand, operating rates aren't terribly much more for the big luxury models where these costs run only in the $2,100-2,300 per year range.

1990-model fleet car costs

Thousands of dollars

Source: Runzheimer International. Assumes 36-month/60,000 mile retention cycle

CURRENT PRICES

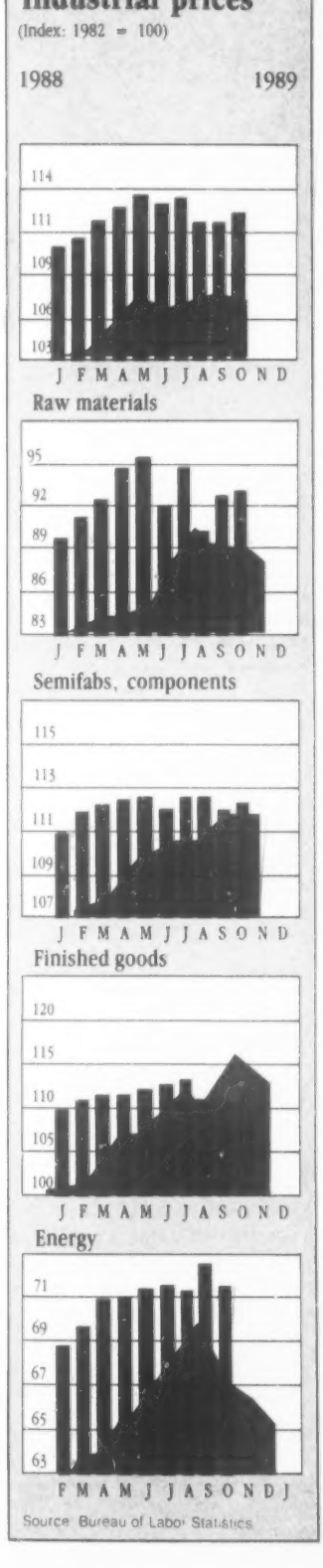
Producer tags mark modest rise

The past year has ended on a relatively optimistic note—with again only a very modest rise in industrial producer prices (as measured by Uncle Sam's Bureau of Labor Statistics).

Over the past few months, for example this bellwether yardstick (a good approximation of what PMs pay for their average purchase mix) has advanced at less than a 1% annual rate. While much of this can be traced back to a peaking out in the energy sphere, other key areas

Industrial prices

(Index: 1982 = 100)



Source: Bureau of Labor Statistics

have also shown signs of flattening out.

This is especially true in the raw material sector. Thus, all of the big nonferrous metals (aluminum, copper, zinc, lead and nickel) are below their levels of a few months back. And now others—including molybdenum, other ferroalloys, and cadmium have joined the downtrend. So have precious metals, with the one exception of rhodium where shortages have helped push tabs up.

True, steel prices show no major weakness. But this is only because government figures fail to pick up all of the discounting in this sector. On a transaction basis these quotes are probably down about 4% from early 1989 peaks.

Nor is this softer trend only applicable to carbon steel. Bigger stainless discounts are also becoming available (see PW Predicts section).

Petrochemicals remain on the shaky side, too. Ditto, plastic resins where overcapacity is becoming an increasingly powerful drag on prices. Sign of the times here: plastic tags are now running close to 10% under a year ago.

Other areas of current weakness would also have to include building materials (because of a lull in construction activity) and paper. On the latter score, most fine papers are off from earlier highs—and linerboard (the key raw material for corrugated) has turned a bit easy in recent months.

Capital goods, on the other hand, continue to inch ahead. But even here the increases at annual rate could hardly be described as earthshaking.

More important, this overall non-inflationary pattern is expected to spill over into the new year. Aiding this trend along will be relatively flat crude oil tags as OPEC continues to have trouble curtailing excess output by its members.

All of this is not to imply that the current lull in producer tags will continue indefinitely. But given the near-term business outlook, it's hard to see those bellwether prices advancing by more than a 2-3% annual rate over the first quarter of the year.

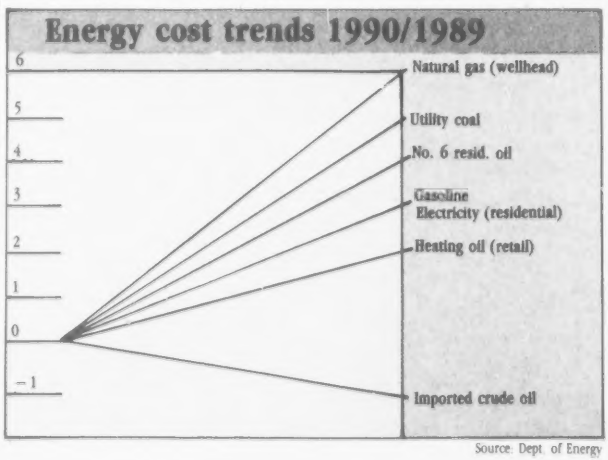
1990 energy costs cool

It's beginning to look like a pretty good 1990 on the energy cost front. Most key fuels are expected to show relatively modest advances over the new year—a big improvement over the past 12 months when such key products as gasoline and residual oil advanced 9% and 24%, respectively.

Behind the hold-the-line optimism: 1) Expectations that crude oil will hold around the current $17.50/barrel level and 2) demand gains will be quite modest—only 1.7% for energy as a whole and an even smaller 0.9% for oil usage.

That's what Department of Energy analysts are predicting these days—with actual product-by-product changes expected to shape up something along these lines:

- **Gasoline**: the overall 1990 price here is expected to rise 3¢/gallon (averaging out at only $1.09/gallon—actually a decrease in inflation-adjusted terms). Some of the boost will be due to the lagged adjustment of gasoline margins to increases in 1989 crude tags. The rest will be the result of rising state and local taxes.
- **Heating oil**: tags should increase about 2¢/gallon (to an average of 88¢/gallon). This primarily reflects the projected difference of 5¢/gallon between the unseasonably low prices of early 1989 and the more normal levels expected over the next few months.
- **Residual oil**: the big retail run-up (to near $17/barrel currently) is about over. True, there could be a 1Q 1990 rise to above $17.30. But for the year as a whole, look for about a 4% overall advance.
- **Natural gas**: wellhead quotes should moderately exceed the general inflation level as supplies get somewhat tighter. But flat oil tags should cap any really large increase. Best bet: a wellhead quote of $2.08/mcf by the end of 1990—up 7% from current levels.
- **Electricity**: residential rates will advance about 4% over the next four quarters. Holding increases down will be 1) fossil fuel cost rises and 2) relatively flat capital outlays. The average rate for the year: 7.88¢/Kwh.



Source: Dept. of Energy

PROCUREMENT STATUS REPORT

1990 smoothly follows 1989

The new year is beginning where the old one left off—with most purchasing managers still talking in terms of relatively problem-free procurement through the foreseeable future.

The now-pervasive buyers' market is perhaps best typified by improved vendor performance. Specifically, for seven straight months faster deliveries have outnumbered slowdowns.

Equally significant, the gap between the faster and slower categories is now quite large. Thus, the National Association of Purchasing Management's Business Survey Committee "vendor performance" index, which measures the gap (with any reading below the neutral 50 mark representing a speedup), has dropped to its lowest level since the recession days of 1982.

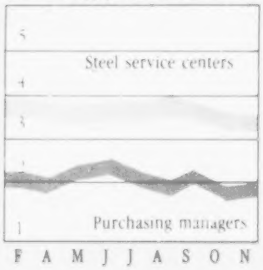
Another positive sign for buyers: the continuing decline in PMs facing price increases. As of the latest re-

Steel

Operating rates

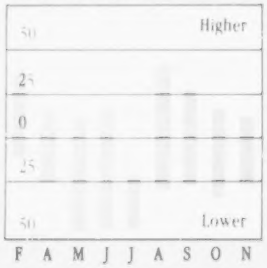
Inventories

(Months supply on hand)

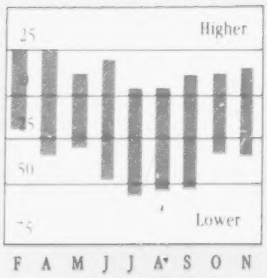


Demand (STEEL SERVICE CENTERS)

(Percent of respondents)



Demand (STEEL BUYERS)



Source: Steel Service Center Institute
NAPM Steel Buyers Committee

port, only 5% of NAPM respondents say they were socked with boosts—far less than the 20% noting declines. This 20% figure, incidentally, represents one of the highest such readings since the index was first tabulated.

Again this is not a one-shot affair. The NAPM price index that measures inflationary pressures has been under the neutral 50 mark for six straight months—nearly as long as the earlier-noted vendor performance index.

Inventories offer still further evidence of a no-sweat situation. More to the point, those NAPM members retrenching have been outnumbering those adding to stocks for 11 straight months. Obviously this can't be due to business retrenchment—since industrial production has actually risen over this period. The only conclusion is there's less need to stock up because of the ready availability of almost all goods.

That's not to say that some PM might not experience a few temporary setbacks in some of the above-mentioned procurement areas. Seasonal patterns, for example, suggest delivery slowdowns are most prevalent in March; price hikes most common in April, and inventory accumulation most likely in February.

But because such developments will be seasonal, they should not be taken too seriously. Put another way, any setbacks in these areas will, in all probability, be only temporary.

Import prices

(compared to domestic)

Steel buyers
ABOVE 54%
SAME 14%
SLIGHTLY BELOW 32%
SUBSTANTIALLY BELOW 0%
SERVICE CENTERS (carbon)
ABOVE 4%
SAME 79%
5-10% BELOW 17%
10-20% BELOW 0%
OVER 20% BELOW 0%

STEEL SCENE

Steel prices stay soft

Price softness in steel is likely to persist through the new year.

So say both steel distributors and most analysts who follow this bellwether industry. Behind their optimistic price projections (optimistic at least from the purchasing point of view) is a combination of falling shipments and relatively low mill operating rates.

The latest Steel Service Center Institute (SSCI) survey, for example, finds 44% of the respondents expecting price declines over the next six months. contrast that to last January when only 11% saw lower quotes ahead.

The vast majority of these service centers say declines will be quite modest (in the 2-5% range). Nevertheless, it does suggest that buyers are once more in the driver's seat.

This certainly seems to be the case in stainless where 1) all nickel and chrome surcharges have been removed, and 2) producers have reportedly increased discounts on many product lines.

Adding to easiness in stainless is the fact that 43% of the SSCI respondents report that imported metal is available at under comparable domestic levels. And 14% say the price break is in the relatively significant 11-20% range.

Buyers, too, note a rise in import competition. The latest NAPM steel report, for example, finds 32% saying that overseas steel is cheaper (albeit only slightly so). That's up from the 20% reading of just one month earlier—and another indication of growing competition.

Meantime, in carbon steel, mill discounts on sheet (generally in the $35-75/ton range) are said to be widely available. Carbon strip, too, is selling under list—with discounts here said to be in the neighborhood of 20%.

The WEFA Group, which monitors overall steel prices, confirms all of this softness—with average transaction prices now estimated to be about 35% under 1989 peaks. The Bala Cynwyd, PA-based econometric consulting firm also sees this soft pattern persisting until 1991 when a small 3% price rise is anticipated.

As suggested above, the weakness in large part stems from a demand slowdown. One top steel analyst, Elizabeth Bossong (formerly USX's manager of economic research) sees shipments off 8% in 1990 (to about 77.5 million tons).

Also contributing to lower shipments: continuing inventory drawdowns—with users as a whole expecting to shave about one million tons off of their holding over the new year. And that's on top of the near 3-million-ton reduction recorded over the past 12 months.

Products being hardest hit by the inventory slashing include such commodity items as rebar and hot rolled carbon sheet. Also affected are stainless and alloy lines, where erratic price movements are causing disruptions to orders.

The likelihood of more inventory paring is also suggested in the latest SSCI survey. Specifically, 51% of the respondents still rate their stocks as being too high—a percentage that has remained virtually unchanged for three straight months. Contrast that to the 2% who feel inventories are too low—and further near-term reductions appear almost certain.

The situation here is summed up by SSCI president Andrew G. Sharkey who feels "tight inventory management will be critical for service centers as we enter 1990, given the likelihood of continued price volatility."

This month's breakdown

Index: 1982 = 100

	Latest level (Oct.)	% change from: Month ago	Year ago
Bearings	125.5	0	6.2
Bolts, nuts, etc.	114.5	1.3	6.4
Chemicals, inorganic	110.4	0.5	7.4
Chemicals, organic	112.2	−0.5	−1.5
Concrete products	111.5	0.1	1.5
Corrugated cartons	112.5	−0.1	1.0
Cutting tools, small	111.8	−0.2	3.5
Electric lamps (bulbs)	125.9	0.8	2.7
Electronic components	119.6	0	1.1
Fans and blowers	120.0	0.1	5.4
Foundry and forge products	115.2	−0.1	3.8
Fuel oil (residual)	48.2	3.0	24.2
Furniture, commercial	130.2	0.1	3.6
Gasoline	65.3	0.6	16.4
Glass, flat	109.2	−0.6	−1.0
Glass containers	115.9	−0.3	3.2
Gypsum products	110.2	1.0	−3.0
Hand tools	129.3	0.5	6.1
Hand tools, power driven	117.0	0	4.6
Industrial furnaces	125.2	0	2.9
Integrating and measuring instruments	122.2	1.5	6.3
Internal combustion engines	116.4	0.3	3.6
Lubricating oil	112.1	0.1	4.1
Lumber millwork	128.1	0.1	3.9
Material handling equipment	113.0	0.4	4.0
Metal containers	115.0	1.8	3.5
Metal mill shapes (nonferrous)	136.7	−0.1	0.8
Metal tanks	111.8	0.4	5.3
Motors and generators	129.9	0.1	4.2
Motor trucks	136.1	10.1	4.2
Office and store equipment	109.5	−0.3	1.6
Paperboard	140.0	−0.2	2.6
Paper boxes and shipping containers	131.0	−0.1	4.1
Paper office supplies	121.9	−0.3	3.9
Paint	120.6	−0.2	5.8
Plastic resins	126.9	−1.8	−9.2
Precision measuring tools	125.3	0	3.2
Pumps and compressors	116.4	0.4	5.4
Refractories	120.1	0.2	4.3
Rubber belts and belting	118.0	1.1	8.6
Scales and balances	106.7	0	0
Steel products	114.5	0.3	2.0
Switchgear	119.4	0.2	4.0
Textiles, synthetic fibers	106.7	0.1	7.3
Textiles, gray fabrics	116.0	0.4	1.6
Tires and tubes	97.3	−0.1	2.9
Transformers and power regulators	119.1	0.3	9.2
Welding equipment	122.6	0.1	2.9
Wire and cable	149.1	1.8	11.9

NAPM procurement trends

(seasonally adjusted diffusion indexes)

An index where 50 is defined as the neutral level, to the extent a reading is above 50, it represents an expansionary tendency. More particularly, rising inventory prices, and new orders are seen as positive signs of economic growth. A trend toward slower deliveries is similarly interpreted.

Inventories

Speed of delivery

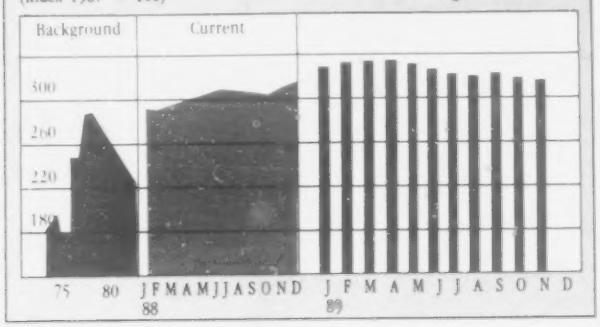
Prices

New orders

Raw material price barometer

(Index 1967 = 100)

Last month 314.8
Month before 325.7
Year ago 309.7



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt	23.90	23.90	23.90
Steel, bars, dlvd, Phila., cwt, merchant quality	18.70	18.70	16.50
Steel, bars, Pitts., cwt	18.70	18.70	16.50
Steel, bars, C.R., Pitts., cwt	23.95	23.95	19.45
Steel, plates, Pitts., cwt	23.25	23.25	23.25
Steel, plates, H.R., Pitts., cwt	23.25	23.25	23.25
Steel, sheets, C.R., Detroit, cwt	29.65	29.65	28.15
Steel, strip, C.R., Chi., cwt	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.760	.770	1.075
Antimony, N.Y., dealer, lb.	.81	.94	.95
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.90
Brass, red, 85% [sheet], lb.	1.78	1.84	2.18
Brass, yellow, [sheet], lb.	1.74	1.80	2.14
Cadmium, N.Y., dealer, lb.	5.15	5.50	7.40
Copper, electrolytic, wire bars, refd., lb.	1.15	1.21	1.55
Copper sheet, over 24 in., lb.	1.87	1.93	2.27
Lead, common, N.Y., lb.	.38	.41	.40
Magnesium, pig ingot [99.8%], lb.	1.63	1.63	1.63
Mercury, 20 fl. lots, N.Y., fl.	290.00	270.00	275.00
Molybdenum, oxide, dealer, lb.	2.51	2.94	3.41
Nickel, cathode, dealer, lb.	4.10	4.65	6.30
Platinum, dealer, oz.	504.00	500.00	596.00
Silver, N.Y., oz.	5.70	5.32	6.18
Tin, N.Y., dealer, lb.	3.08	3.39	3.42
Zinc, Prime West, East St. Louis, lb.	.73	.77	.75
Zinc, die casting alloy, No. 3, lb.	.810	.855	.835
PAPER			
Uncoated book #3 offset, ton	940.00	960.00	965.00
Watermarked bond, ton	1095.00	1090.00	1080.00
Gummed sealing tape, carton	19.10	18.87	17.87
Grocery sacks, ton	495.00	495.00	460.00
Solid bleached paperboard, ton	835.00	780.00	730.00
Kraft linerboard, 42 lb., unbleached, ton	410.00	410.00	410.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.282	.286	.280
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.24	1.24	1.18
Cotton middling, 1", N.Y., lb.	.614	.693	.515
Printcloth, 48", 80x80, N.Y., spot, yd.	.50	.50	.50
Army duck, 37", 13 oz., yd.	1.40	1.40	1.50
Blended printcloth, 64", 78x54, yd.	.76	.77	.70
20s combed yarns	1.94	1.94	1.80
Wool 64s, Staple, lb.	3.50	3.50	4.50

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	.42	.42	.36
Ammonia, anhydrous, tankcars, Gulf Coast, ton	88.00	73.00	91.00
Benzene, petroleum, tanks, Houston, gal.	1.51	1.32	1.80
Caustic soda, 76% solid, drums, carlots, cwt.	28.00	28.00	28.00
Cresylic acid [over 25%], tanks, lb.	.55	.55	.55
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.845	.845	.760
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.32	.30	.60
Naphthalene, crude, tanks, lb.	.16	.16	.16
Phthalic anhydride, tanks, lb.	.40	.40	.35
Polyethylene resin, low density liner film grade (market place), lb.	.350	.350	.515
Polypropylene, homopolymer grade (market price), lb.	.365	.365	.505
Polystyrene, general purpose grade (market price), lb.	.475	.485	.590
Polyvinyl chloride, pipe grade (market price), lb.	.335	.335	.440
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.350	.335	.470
Sulfur, crude, ex-terminal, Tampa, Fla., lt.	117.50	117.50	142.00
Sulfuric acid, 66%, commercial, tanks, ton	69.89	69.89	66.86
Titanium dioxide, anatase, reg., carlots lb.	1.02	1.02	.95
Xylene tanks, gal.	.85	.90	1.30
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	343.56	344.50	334.94
Lumber 2x2 pine, mbf, cl	337.08	329.70	319.18
Plywood, plyform, ¾", msf, cl	605.94	602.21	567.75
Plywood, ⅜", msf, cl	401.83	365.56	382.32
Cement, bulk, ton, tl	62.85	63.34	64.27
Sand, ton, cl	7.03	7.00	7.22
Ready-mix concrete, 3,000 psi/cu. yd.,	47.82	48.09	48.31
Crushed stone, 1½", ton, cl	N.A.	N.A.	N.A.
Concrete blocks, sand/gravel, 8"x8"x16", per hundred	89.57	89.04	92.28
Reinforcing bars, whse base, per cwt	22.07	22.04	20.85
Asphalt paving AC-20	104.75	105.80	114.39
Vitr. Clay Sewer Pipe, Prem Joint, 12", per ft, cl	N.A.	N.A.	N.A.
Concrete sewer pipe, 24", prem. joint, per foot, cl	18.03	17.94	N.A.
FUELS			
Crude oil (W. Tex Int Cush), bbl.	20.25	19.90	15.35
Diesel (reseller rack, Chi), gal.	.6025	.6150	.4700
Fuel oil No. 2 (N.Y.), gal.	.6485	.5835	.4835
Fuel oil No. 2 (Gulf spot), gal.	.5945	.5730	.4575
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	21.75	21.50	18.75
Gasoline (prem unlded NY), gal.	.5860	.5900	.5075
Gasoline (reg unlded NY), gal.	.5315	.5150	.4850
Kerosene (reseller rack, Chi), gal.	.6875	.6990	.5180
Propane (Mt. Belvieu, Tex), gal.	.2375	.2100	.2050
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	92.00	93.00	111.00
Steel, No. 1 hvy., dlvd., Chi., ton	94.00	96.00	106.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.990	1.055	1.230
Copper, No. 2, East, wholesale buy, dlvd., lb.	.920	.975	1.080
Brass, red, East, wholesale buy, dlvd., lb.	.950	1.015	1.190
Brass, yellow, East, wholesale buy, dlvd., lb.	.590	.560	.525
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.440	.460	.615
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.510	.540	.720
Zinc, old, East, wholesale buy, dlvd., lb.	.30	.30	.24
Lead, clean solids, East, wholesale buy, dlvd., lb.	.24	.24	.27
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	Nom.	Nom.	15.00
Paper, old corrug. box, dlr., N.Y., ton	Nom.	Nom.	Nom.
Old newspapers, Chi., ton	Nom.	Nom.	Nom.
Old white ledger, Chi., ton	110.00	110.00	75.00

[Sources: Metals Week, American Metal Market, Engineering News-Record (20-city averages), The Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]

$137.5 billion in 1986 to only $60 billion this past year—is coming to an end. But any deterioration is expected to be modest, with only about $10 billion (bringing the total to $70 billion) being added onto the current red ink figure.

On the other hand, some deterioration is inevitable—if only because of the recent strengthening of the dollar. But with inflation remaining low, exports should stay fairly strong. And if the dollar comes down a bit (as expected) this could further strengthen exports and inhibit big import gains.

• **Profits.** Earnings have been weak, but future prospects are not all that gloomy. True, GNP growth will be minimal in early 1990, but unit labor costs are only rising slowly and productivity patterns are improving.

Then, too, Federal Reserve policy is gradually easing, and a pickup in growth is seen during the second half. As such, whatever profit weakness we may have is likely to be limited in both size and duration.

• **Government spending.** Federal outlays on goods (excluding transfer payments) has been rather flat during recent quarters. And this pattern is expected to continue. State and local spending, meantime, continues to rise gradually—and may be encouraged somewhat as interest rates continue to fall.

Defense spending cuts will, of course, eventually materialize if Glasnost continues. But it takes time to cut this kind of spending. In any case, appreciable reduction of the Federal budget deficit is not anticipated over the next year or so.

Nevertheless, the long-term implications of big defense cuts can't be ignored. It's clearly a factor that makes forecasts extending into 1991 and beyond risky.

But Dr. Williams then points out that the vast amount of public money waiting to be spent in the nondefense sector (especially for propping up the infrastructure) will take up much of the slack. He then adds that, with a little luck, we may be looking forward to a ninth straight year of growth a year from now.

Readers view 1990

PurchasingWorld readers aren't buying all the recent gloom and doom talk. Quite the contrary, they remain surprisingly optimistic about the year just now getting underway.

Judging from their replies to *PW*'s just-completed national survey, the majority are looking forward to somewhat lower inflation rates (though with some second half acceleration), continuing gains in their company's business (again with the second half better than the first), and steady to improving delivery performance.

As a midwest purchasing executive puts it, "We just don't see the imbalances that have precipitated previous business downturns. And while it may be difficult to maintain last year's rate of gain, there's no reason why 1990 should not turn out to be another tolerably good year."

He and others are quick to point out that their procurement task should be a bit easier—what with fewer and more scattered price increases and virtually all procurement items available on demand.

That's not to say, of course, that there won't be problems. Certainly strikes could pose headaches in some areas—and more than a few PMs will have to walk a tightrope on inventories as pressure for lower stock levels continues.

Be that as it may, the basically positive buyer outlook is highlighted by the following specific survey findings:

• **Prices:** Nearly one out of every three queried think they can hold increases for 1990 to 2% or less. And the average advance for all respondents is put at only a moderately higher 3.7%. That compares the 4%-plus estimate a year ago, when these same buyers were asked to forecast the overall 1989 trend.

This improving price picture is also highlighted by the fact that 57% of those responding see 1990 percentage increases lagging those of last year—with 21% dubbing the projected deceleration as "significant." On a less rosy note, one out of three feel there could be some acceleration in the last six months, though most of this latter group say any speedups will be quite modest.

• **Demand:** As suggested earlier, the business upturn is expected to continue. Specifically, some 55% of *PW* respondents expect their own firms to better 1989 performance—nearly twice as many as the 31% who feel some declines are possible over the new year.

• **Inventories:** "Keep 'em lean" still remains the order of the day, despite expectations of a still-rising business curve. It may seem hard to believe, but more than four out of every 10 *PW* respondents plan on further near-term cuts—with another 50% or so hoping to hold the line despite continuing good demand.

• **Availability:** No sweat—a situation which is perhaps best summed up by one Atlanta-based PM who notes that only one of the 1,800 items he buys is currently on allocation.

Also signalling a continuation of ample supplies is the fact that 92% of queried PMs are hard put to name one critical item that will be in short supply over the new year. Almost as impressive are the 89% who expect delivery times to hold or even come in a bit.

Not surprisingly, purchasing professionals hope to take advantage of the bargaining leverage implied by all the above. Their 1990 buying strategies, for example, include such time-tested approaches as 1) more hard-nosed bargaining on transaction prices, on terms of sale, and on price guarantees, 2) further exploration of overseas opportunities, 3) increased attention to value analysis, 4) a continuing move to just-in-time deliveries as part of an overall inventory reduction goal, and 5) increased use of long-term contracts with a few reliable suppliers.

Labor pacts active in '90

Brace for another fairly active year on the labor bargaining front—as some three million workers either reopen or renegotiate major labor contracts over the next 12 months.

This is slightly under the 3.4 million workers who inked new pacts this past year, but with unions showing more signs of flexing their muscles, 1990 could see significant work stoppages and/or pay hikes.

It's certain, squabbling over who pays medical care costs (business or workers) is likely to cause an increasing number of problems. Indeed, this trend is already quite apparent. Thus, the Federal Mediation and Conciliation Service estimates that 60% of the strikes it recently has been mediating involve health benefit issues.

One sure thing, wage boosts are likely to be fairly high on the list of union demands. And while increases will most certainly vary industry by industry, the average increase over the new year is expected to run somewhat above the 3%-plus life-of-the-contract average noted for just-ended 1989.

There should also be a continuation of the "front-loading" (larger than average increases in the first contract year of a multi-year pact). Last year, for example, such front-loading was noted in 54% of all big agreements—nearly double the 33% which carried back-loading provisions.

Cost-of-living adjustments are also expected to play a role in new settlements. As of latest report, some 40% of all workers under major agreements had these so-called COLA clauses. And preliminary indication suggest this percentage will hold over the new year.

Meantime, workers in private industry, where contracts are slated for renegotiation in 1990 are about equally divided between non-manufacturing (51%) and manufacturing (49%). Some of the specifics:

- **non-manufacturing:** the largest numbers of workers are in construction (409,000), wholesale and retail trade, primarily food stores (179,000), and trucking and warehousing (116,000).
- **manufacturing:** the largest numbers are in transportation equipment, primarily automobile manufacturing (595,000) and apparel (97,000).

These contracts are pretty much spread out over the year (see accompanying table). But of special importance to purchasing executives are these key expirations and reopenings: petroleum refining (January), apparel and textiles (February), construction (March through June), parcel delivery (July) and autos (September). On a rosier note, however, very little in the way of big new mining and metal negotiations looms on the near-term horizon.

The 1990 Wage Calendar

Source: Bureau of Labor Statistics

Month	Principal industries	Agreement expirations and/or scheduled wage reopenings: Number of pacts	Workers covered
January	Petroleum refining, local government	38	122,000
February	Apparel and other textile products	30	144,000
March	Health services construction	49	157,000
April	Construction	48	153,000
May	Construction	74	224,000
June	State and local government, construction	215	679,000
July	Parcel delivery	35	221,000
August	Food stores	41	206,000
September	Automobiles, apparel and state and local government	70	894,000
October	Food stores	25	68,000
November	Transportation equipment	20	60,000
December	Local government	35	117,000
Total	(for those covering 1,000 or more workers)	678	3,008,000

Industrial products take low road

The relatively low inflation scenario anticipated for the next few years should encompass most industrial products.

A new Data Resources Inc. rundown (prepared especially for *PurchasingWorld* readers tells the story. Raw materials (metals, chemicals, plastics, etc.) will be softest, at least during the initial stages of the 1990-92 forecast period. But even the majority of more highly fabricated lines are expected to sport limited increases throughout the 3-year span (see accompanying chart for details).

The current lull to a large extent reflects somewhat softer demand. But even when demand picks up later in 1991, the projected price boosts should remain within tolerable bounds.

One reason: the basically restrained wage cost advance anticipated by DRI analysts. Over the current year, for example, a 5.4% increase in annual compensation is expected to be partially offset by a near-1% increase in overall productivity. And in 1991, an improving demand picture should raise the efficiency offset to near 2%—thereby holding the estimated unit labor cost increase that year to just over 3.5%.

Couple the above with ample capacity, continuing foreign competition, and the absence of any inflationary psychology, and here's how specific segments of the industrial purchasing price mix seem to be shaping up over the 1990-92 period.

• **Energy:** Only a slow price rise is anticipated, as OPEC and non-OPEC producers steadily increase output. But the oil cartel manages only shaky alliances and is therefore unable to have a major impact on global crude quotes. Thus, the refiner's average acquisition price for crude (composite of foreign and domestic) rises only 0.2% in 1990 and 5.2% in 1991—a welcome change after the big 18.7% increase of 1989.

• **Steel:** Figure on continuing near-term softness. No real price collapse is projected, however, as strong foreign steel markets and VRAs prevent foreign dumping on U.S. markets. The overall increase in mill products for this year is put at only 0.5%—with most of this coming after midyear. Longer term, the projected increases for 1991 and '92 are 4.3% and 5.2%, respectively.

• **Nonferrous metals:** Demand will remain weak for another few quarters, but reductions in production and rising cost pressures should prevent any big downward spiral. For 1990 as a whole, price averages will be lucky to post a fractional 0.4% increase. But a buying pickup after that should give a lift to this volatile segment—with 1991 and 1992 averages rising 6.2% and 7.9%, respectively.

• **Industrial chemicals:** Current easiness is expected to persist well into this year. Upshot: price averages show anemic 0.9% quarterly advances over the next four quarters. But by 1991, improvements in the construction and automotive industries help push up the quarterly average to near 1.5%—with an almost-as-robust 1.4% quarterly average increase anticipated through 1992.

• **Construction products:** Slowly improving building activity will mean gradually rising (but still modest) price increases. Concrete products, for example, are targeted to rise 2.3%, 4.1%, and 4.9% in 1990, '91, and '92, respectively. A similar pattern is noted for gypsum—with advances over these same three years put at 2.1%, 5.0%, and 4.6%.

• **Machinery and equipment:** Relatively low factory operating rates (estimated to drop to 80.6% this year) suggest decelerating demand gains. This, in turn, should keep a lid on price increases. This year's estimated 3.3% advance, for example, will actually be under the 3.6% reading of the past year. Only slightly higher 4.1% and 4.3% hikes are seen for 1991 and 1992, respectively.

• **Electronic components:** Producers will minimize price boost to keep their share of an increasingly competitive market. Shortages of most components are just a memory and users are now being a lot more selective about the products they buy. Conclusion: prices will rise only 1.4% this year (*versus* 1.8% in 1989) before jumping 4.0% in 1991 and 6.9% in 1992. Increases for individual components, however, will vary greatly from industry averages.

Industrial prices into 1992
(First quarter comparisons)

Product	1991	1992
Basic raw materials & energy		
Nonfood, nonfuel for mfg	4.3	6.4
Corrugated containers	2.6	4.5
Refined petroleum products	3.6	5.0
Electric power	2.2	3.1
Metals		
Wire rods, carbon steel	0.2	5.1
Steel sheet, HR carbon	4.5	6.2
Stainless sheet, CR	5.4	5.7
Steel castings, standard malleable	2.6	7.0
Tin	7.1	8.8
Aluminum ingot	3.2	6.6
Copper & brass shapes	3.8	9.4
Titanium mill shapes	2.9	3.2
Component parts		
Fasteners	1.2	0.8
Industrial controls	2.2	5.9
Engine parts, electrical	1.9	4.7
Storage batteries	2.6	4.7
Bearings	2.7	6.5
Motor vehicle parts	1.9	2.3
Semiconductors	1.2	6.2
Construction		
All materials	3.9	5.6
Hardware	2.6	3.6
Metal doors	4.4	5.9
Sheet metal products	-0.3	4.0
Lighting fixtures	3.2	5.4
Insulation materials	3.8	3.7
Machinery		
Metal working machinery	4.2	4.7
Turbines & generators	3.3	7.5
Air conditioning & refrigeration equip	2.0	3.2
Mining equip	4.5	3.8
Internal combustion engines	4.0	6.1

Econometric models are 'refreshing'

"The pause that refreshes" describes the near-term business picture being painted by the nation's major econometric forecasting models.

In a nutshell, these mathematically-oriented forecasts (based on hundreds of equations) are calling for a short-lived growth pause (but no recession) to be followed by solid growth toward the end of 1990 and into 1991.

The advances in real GNP and industrial output by 1991, for example, could be approaching the levels of the past year. Not all that bad—considering that 1990 and 1991 will be the eighth and ninth consecutive years of business up-trend.

Also on an upbeat note—these projections (summarized in the table) have been pretty much on the button in the past—primarily because they are able to evaluate all of the interacting business variables that help determine our $4 trillion-plus economy.

Example: A year ago these models (from DRI, the WEFA Group, and Merrill Lynch) put 1989 real GNP growth at around 2.5%—pretty close to the final 3.0% estimate.

And even greater precision is noted in the price sphere—with the final 4.1% increase in the 1989 GNP deflator coming within a whisker of the original 4.2% projection. Similarly, virtually pinpoint accuracy is noted for 1989 consumer prices (4.9% originally projected versus 4.8% at latest count).

So much for history. These same models are also optimistic about holding the price line over the year just now getting underway. The average GNP price deflator advance for 1990 is put fractionally under 1989 levels. And when it comes to finished producer goods prices (of more immediate concern to industrial purchasing managers) the deceleration is a lot more significant—from 5.0% last year to only 2.9% in 1990.

What the models predict

	1989	1990	1991
Real GNP (% change)			
DRI	3.0	1.6	3.2
Wharton	3.0	2.0	2.4
Merrill Lynch	3.0	2.0	N.A.
AVERAGE	3.0	1.9	2.8
Industrial production (% change)			
DRI	3.2	1.0	4.4
Wharton	3.2	1.2	2.8
Merrill Lynch	3.2	1.3	N.A.
AVERAGE	3.2	1.2	3.6
GNP price deflator (% change)			
DRI	4.1	3.7	4.1
Wharton	4.1	4.3	4.2
Merrill Lynch	4.1	4.0	N.A.
AVERAGE	4.1	4.0	4.2
Finished producer prices (% change)			
DRI	5.0	3.3	4.3
Wharton	5.0	2.1	3.0
Merrill Lynch	5.0	3.2	N.A.
AVERAGE	5.0	2.9	3.7
Consumer prices (% change)			
DRI	4.8	4.1	4.6
Wharton	4.8	4.0	4.3
Merrill Lynch	4.8	4.2	N.A.
AVERAGE	4.8	4.1	4.5
Prime interest rate (%)			
DRI	10.9	9.9	11.0
Wharton	10.9	10.0	10.0
Merrill Lynch	10.9	10.3	N.A.
AVERAGE	10.9	10.1	10.5
Unemployment rate (%)			
DRI	5.2	5.4	5.4
Wharton	5.2	5.7	5.6
Merrill Lynch	5.2	5.5	N.A.
AVERAGE	5.2	5.5	5.5

Talks with analysts at all three econometric firms indicate one major reason for this substantial producer price deceleration. This series contains many raw materials and semi-fabricated items—products where prices are expected to remain soft. On the other hand, the GNP price deflator is heavily weighted with services which are expected to continue rising at near record clip.

The price outlook for 1991 isn't all that bad either. True, the finished producer price increase is set to jump by nearly a full percentage point (to 3.7%) by that time. Even so, that would still leave this advance well under last year's. Consumer price advances at that time are also expected to lag 1989 levels.

Forecasts of two other barometers would also seem to bode well for the ecomomy. Interest rate projections, for example, suggest that monetary easing, already underway, will continue into the new year. Specifically the prime rate (as measured by the average of the three models) is put at only 10.1% in 1990—nearly a full percentage point under the average for the year just ended.

Unemployment is the other positive indicator alluded to above. The jobless rate is expected to inch ahead (from 5.2% in 1989 up to 5.4% in 1990), but this can hardly be called a momentous change. More important, it's unlikely to have any significant impact on consumer buying (another key variable projected by these models).

It might also be noted that the new 1990 jobless projection (5.4%) is actually under the 5.8% estimate for 1990, made a year ago. In short, unemployment is likely to pose less of a problem than originally anticipated.

This rosier-than-expected outlook would also seem to apply to prices: a year ago the finished goods producer price forecast for 1990 called for a 4.8% increase—a figure which has now been downgraded to a much more livable 2.9%.

Also on the reassuring side is the fact that there's very little variation among the three models when it comes to most of the indicators being projected. Take 1990 growth—where less than half a percentage point separates the three individual models—and the differential is as small or even smaller for the GNP price deflator, consumer prices, interest rates, and unemployment.